



Dave Yost • Auditor of State

**City of Willoughby Hills
Lake County, Ohio**

**General Purpose External Financial Statements
For the Year Ended December 31, 2011**

Local Government Services Section

City of Willoughby Hills, Ohio
General Purpose External Financial Statements
For the Year Ended December 31, 2011
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Dave Yost • Auditor of State

City of Willoughby Hills
35405 Chardon Road
Willoughby Hills, Ohio 44094

Accountant's Compilation Report

We have compiled the comprehensive annual financial report for the City of Willoughby Hills as of and for the year ended December 31, 2011. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

Management's Discussion and Analysis is supplementary information required by the Governmental Accounting Standards Board and was prepared by management. We did not compile the information nor do we express an opinion or provide any assurance thereon.

DAVE YOST
Auditor of State

A handwritten signature in cursive script that reads "Unice S. Smith".

Unice S. Smith
Chief of Local Government Services

January 22, 2013

City of Willoughby Hills, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
Unaudited

The discussion and analysis of the City of Willoughby Hills' (the City) financial performance provides an overall review of the City's financial activities for the year ended December 31, 2011. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers are encouraged to consider the information presented here in conjunction with the additional information contained in the financial statements and notes to enhance their understanding of the City's financial performance.

Financial Highlights

- The City's net assets increased by \$2.7 million during 2011 due mainly to an increase in municipal income tax collections as well as to an increase in net capital assets. The increase in municipal income taxes was the result of a voted increase in the tax rate from 1.5 percent to 2.0 percent which became effective in January 2011. The additional one half percent is used to support the City's safety forces.
- The City's capital assets increased by \$2.1 million. Most of the increase can be attributed to infrastructure related projects such as improvements to Bishop Road, Eddy Road, Maple Grove Slope and Euclid Creek Sewer Area C. The increase in capital assets was partially offset by annual depreciation.
- Outstanding general obligation bonded debt decreased during 2011 due to annual debt payments.

Using This Annual Financial Report

This discussion and analysis is intended to serve as an introduction to the City of Willoughby Hills' basic financial statements. These statements are organized so that readers can understand the City as a financial whole or as an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial conditions.

The statement of Net Assets and Statement of Activities provide information about the activities of the whole City. They provide both an aggregate view of the City's finances in addition to a longer-term view of those assets. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what dollars remain for future spending. The fund financial statements also look at the City's most significant funds with all other non-major funds presented in total in one column.

The City of Willoughby Hills as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the questions, "How did we do financially during 2011?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by the private sector. The basis for this accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

City of Willoughby Hills, Ohio
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The *statement of net assets* presents information on all of the City of Willoughby Hills' assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Willoughby Hills is improving or deteriorating. However, the analysis on the City's condition must also look at the City's tax base, property tax evaluation and the condition of the City's assets.

The *statement of activities* presents information showing how the government's net assets changed during the recent year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, security of persons and property (police and fire), leisure time activities, community environment and transportation. The only business-type activity is the sewer operation.

Reporting the City's Most Significant Funds

Fund Financial Statements A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental, proprietary and fiduciary.

Governmental funds Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on *near-term inflows and outflows of expendable resources*, as well as on balances of expendable resources available at the end of the year.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds and governmental activities*.

The City maintains twenty-six individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the general fund, safety forces fund and road levy fund which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation.

The City adopts an annual appropriated budget for each of its funds to demonstrate budgetary compliance.

City of Willoughby Hills, Ohio
Management's Discussion and Analysis
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Unaudited

Proprietary Funds The City's only proprietary fund is the sewer system. Proprietary fund statements provide the same type of information as the government-wide financial statements, only in more detail.

Fiduciary Funds The City uses agency funds to record receipting of deposits and disbursements for persons and businesses who are involved with going through the Board of Zoning Appeals (BZA) with the City's Planning Commission. City ordinances require the deposit of funds to defray any engineering or legal cost associated with a case before our BZA of the Planning Commission.

Notes to the Basic Financial Statements The notes provide additional information that are essential for a full understanding of the data provided in the government-wide and fund financial statements.

The City as a Whole

As noted earlier, the Statement of Net Assets looks at the City as a whole. The following table provides a summary of the City's net assets for 2011 compared to 2010.

Table 1
Net Assets

	Governmental Activities		Business-Type Activity		Total	
	2011	2010	2011	2010	2011	2010
Assets						
Current and Other Assets	\$6,791,659	\$5,966,896	\$1,333,228	\$1,598,078	\$8,124,887	\$7,564,974
Capital Assets, Net	12,762,745	11,845,695	21,172,084	19,980,152	33,934,829	31,825,847
Total Assets	19,554,404	17,812,591	22,505,312	21,578,230	42,059,716	39,390,821
Liabilities						
Current Liabilities	2,655,577	2,685,465	368,204	509,361	3,023,781	3,194,826
Long-Term Liabilities						
Due Within One Year	430,476	1,763,092	733,665	252,309	1,164,141	2,015,401
Due in More Than One Year	3,595,100	2,507,597	13,383,990	13,481,880	16,979,090	15,989,477
Total Liabilities	6,681,153	6,956,154	14,485,859	14,243,550	21,167,012	21,199,704
Net Assets						
Invested in Capital Assets,						
Net of Related Debt	9,234,868	8,397,848	7,011,044	6,245,963	16,245,912	14,643,811
Restricted for:						
Capital Projects	110,150	332,914	0	0	110,150	332,914
Debt Service	45,844	0	0	0	45,844	0
Other Purposes	1,858,613	1,479,788	0	0	1,858,613	1,479,788
Unrestricted	1,623,776	645,887	1,008,409	1,088,717	2,632,185	1,734,604
Total Net Assets	\$12,873,251	\$10,856,437	\$8,019,453	\$7,334,680	\$20,892,704	\$18,191,117

City of Willoughby Hills, Ohio
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For the City, total net assets for governmental activities saw an increase. A major component of the City's assets is capital assets. For 2011, the City's net capital assets increased significantly. This is a reflection of the commitment of the City to undertake major capital projects to protect the health and safety of its residents. In 2011, the City made major improvements to Bishop Road and Eddy Road as well as improvements to Maple Grove slope. The City also completed work on installation of traffic signals on Route 91. The City's net assets also increased as a result of an increase in income tax revenues.

Total net assets for business-type activities showed a significant increase that can be directly attributed to the construction in progress associated with the major improvements to the Euclid Creek Area C sewer project.

In order to further understand what makes up the changes in net assets for the current year, the following table gives readers further details regarding the results of activities for the current year.

Table 2
Change in Net Assets

	Governmental Activities		Business-Type Activity		Total	
	2011	2010	2011	2010	2011	2010
Revenues						
Program Revenues						
Charges for Services and Assessments	\$3,048,350	\$3,317,432	\$1,994,194	\$1,184,304	\$5,042,544	\$4,501,736
Operating Grants and Contributions	1,104,014	996,158	0	0	1,104,014	996,158
Capital Grants and Assessments	113,214	747,485	68,303	2,082,388	181,517	2,829,873
Total Program Revenues	4,265,578	5,061,075	2,062,497	3,266,692	6,328,075	8,327,767
General Revenues						
Property Taxes	1,940,252	1,848,985	0	0	1,940,252	1,848,985
Income Taxes	4,652,883	3,161,682	0	0	4,652,883	3,161,682
Admission Taxes	19,776	41,804	0	0	19,776	41,804
Grants and Entitlements	918,753	882,679	0	0	918,753	882,679
Franchise Taxes	94,539	88,887	0	0	94,539	88,887
Interest	2,498	9,751	409	1,556	2,907	11,307
Payment in Lieu of Taxes	112,080	108,399	0	0	112,080	108,399
Other	47,316	76,737	0	0	47,316	76,737
Total General Revenues	7,788,097	6,218,924	409	1,556	7,788,506	6,220,480
Total Revenues	\$12,053,675	\$11,279,999	\$2,062,906	\$3,268,248	\$14,116,581	\$14,548,247

City of Willoughby Hills, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
Unaudited

Table 2
Change in Net Assets
(continued)

	Governmental Activities		Business-Type Activity		Total	
	2011	2010	2011	2010	2011	2010
Program Expenses						
General Government	\$2,801,461	\$3,227,610	\$0	\$0	\$2,801,461	\$3,227,610
Security of Persons and Property:						
Police	3,262,757	3,071,236	0	0	3,262,757	3,071,236
Fire	2,059,268	1,946,116	0	0	2,059,268	1,946,116
Transportation	1,417,348	1,182,773	0	0	1,417,348	1,182,773
Community Environment	145,704	136,638	0	0	145,704	136,638
Leisure Time Activities	248,345	194,127	0	0	248,345	194,127
Interest and Fiscal Charges	101,978	131,358	0	0	101,978	131,358
Sewer	0	0	1,378,133	1,359,363	1,378,133	1,359,363
Total Program Expenses	10,036,861	9,889,858	1,378,133	1,359,363	11,414,994	11,249,221
Transfers	0	(293,012)	0	293,012	0	0
Change in Net Assets	2,016,814	1,097,129	684,773	2,201,897	2,701,587	3,299,026
Net Assets Beginning of Year	10,856,437	9,759,308	7,334,680	5,132,783	18,191,117	14,892,091
Net Assets End of Year	<u>\$12,873,251</u>	<u>\$10,856,437</u>	<u>\$8,019,453</u>	<u>\$7,334,680</u>	<u>\$20,892,704</u>	<u>\$18,191,117</u>

Governmental Activities

For governmental activities, there was a decrease in program revenues for 2011, while general revenues saw an increase. The decrease in program revenues is a result of the collection of less fines and forfeitures received in the mayor's court than in 2010 as well as fewer capital projects receiving grant proceeds. The increase in general revenues is a result of greater income taxes received. Several sources fund the City's governmental activities with the municipal income tax being the largest component. The City has a current municipal income tax rate of two percent. In November 2010, the voters approved a one half percent increase to the City's income tax rate. Effective January 1, 2011, the City has matched its other adjacent Lake County cities with an income tax rate of two percent. The additional one half percent increase was solely used to support the City's safety forces. The City grants one hundred percent credit to residents who pay municipal income tax to another city. Property tax collections are the next largest source of general revenue for governmental activities. The City collects 3 mills of inside millage and 4.3 mills of outside millage. The outside millage is generated from a 1.8 mill perpetual levy for fire and EMS services and a 2.5 mill road levy. The City is constantly reviewing its fee structure to insure that all fees constitute a fair charge for the cost of providing government services. A review of the above table also shows that program expenses remained fairly consistent with 2010 levels.

Overall, the largest expenses for the City are in the general government, police and fire departments. The City, in conjunction with the Federal Drug Enforcement Agency, vigorously enforces drug laws. They have made several large drug busts and confiscated large quantities of illegal substances. The City places confiscated funds in two special revenue funds. The use of these confiscated funds is governed by the police department control policy.

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The City's fire department is staffed by approximately 40 to 50 full-time and part-time firemen. All of these personnel are cross trained as paramedics. In the late 1990's the City began charging for ambulance rides. Proceeds of the ambulance billings are pledged by ordinance to help defray the costs of the \$1,153,000 bond taken-out in 2001 for a major renovation of the fire station.

Another major expense is transportation. The City uses a combination of the State license and gasoline excise taxes to fund a ten person service department. In 2001, the City made a change in budgeting and moved all of the department costs into the street construction, maintenance and repair special revenue fund. Prior to this, there were duplicate expense codes for personnel and materials. By combining all transportation services in one fund, the City can monitor the expenses more easily.

Business-Type Activity

The City's business-type activity is comprised of one enterprise fund, which is the City's sanitary sewer system. The largest source of revenue for the Sewer fund is charges for services. On the expense side, the largest expense was for capital outlay relating to the construction and improvement of sanitary sewers.

Governmental Funds

A review of the City's governmental funds provides information on near-term flows and balances of expendable resources and serves as a useful measure of a government's net resources. Governmental fund information can be found on page 14 and is accounted for using the modified accrual basis of accounting.

The City's major governmental funds are the general fund, safety forces and road levy special revenue funds. The general fund saw an increase in fund balance during the year with revenues exceeding expenditures largely due to the City being more conservative in their spending in efforts to reduce costs. The safety forces special revenue fund saw an increase in fund balance from the initial collection of the income tax coupled with a transfer from the general fund to begin coverage of the police and fire staff. The road levy special revenue fund saw a decrease in fund balance from multiple street projects that were completed during 2011.

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the general fund. During the course of 2011, the City amended its general fund numerous times as the City tried to avoid waiting until the end of the year to adjust appropriations. All recommendations for budget changes are presented to the Finance Committee of Council before going to City Council for legislative action to approve the change. Budgetary changes normally consist of requests for capital expenditures as the City operates with a legal level of control at the fund level. The control level of the general fund however is by object level within each department within the fund. This allows the City to make small interdepartmental budget modifications within departments. The general fund is monitored closely with regard to revenues and related expenditures. There was a slight decrease in actual revenue received due mainly to less than estimated fines and forfeitures received in the mayor's court. There was a decrease in actual expenditures made compared to the final budget. This was due to restricting spending as much as possible in the City's efforts to maintain a positive fund balance.

City of Willoughby Hills, Ohio
Management's Discussion and Analysis
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Unaudited

Capital Assets

Table 3 shows 2011 balances of capital assets as compared to 2010.

Table 3
Capital Assets at December 31
(Net of Accumulated Depreciation)

	Governmental Activities		Business-Type Activity		Total	
	2011	2010	2011	2010	2011	2010
Land	\$279,700	\$34,700	\$268,613	\$268,613	\$548,313	\$303,313
Construction in Progress	0	418,204	15,071,020	13,759,518	15,071,020	14,177,722
Land Improvements	479,735	500,449	0	0	479,735	500,449
Buildings Improvements	5,493,963	5,629,039	0	0	5,493,963	5,629,039
Machinery and Equipment	2,057,530	2,006,215	272,453	308,171	2,329,983	2,314,386
Infrastructure	4,451,817	3,257,088	0	0	4,451,817	3,257,088
Sewer Improvements	0	0	5,559,998	5,643,850	5,559,998	5,643,850
Total Capital Assets	<u>\$12,762,745</u>	<u>\$11,845,695</u>	<u>\$21,172,084</u>	<u>\$19,980,152</u>	<u>\$33,934,829</u>	<u>\$31,825,847</u>

For 2011, the primary additions for governmental activities included police radio equipment, vehicles for police, fire and service, light signals on Route 91 and major road improvements. The primary addition for the business-type activity was the continued construction in progress added for the Euclid sewer improvements. Additional information concerning the City's capital assets can be found in Note 11 to the basic financial statements.

Long-term Obligations

Table 4 summarizes the City's long-term obligations outstanding.

Table 4
Outstanding Long-term Obligations at Year End

	Governmental Activities		Business-Type Activity		Total	
	2011	2010	2011	2010	2011	2010
General Obligation Bonds	\$1,801,484	\$2,045,126	\$0	\$0	\$1,801,484	\$2,045,126
Special Assessment Bond	34,716	52,074	0	0	34,716	52,074
OWDA Loans	0	0	13,489,578	13,034,933	13,489,578	13,034,933
OPWC Loans	0	0	555,475	592,925	555,475	592,925
Short-Term Notes	300,000	0	0	0	300,000	0
Long-Term Notes	1,200,000	1,250,000	0	0	1,200,000	1,250,000
Lake County Payable	65,966	107,702	0	0	65,966	107,702
Capital Leases	168,084	61,728	72,602	106,331	240,686	168,059
Compensated Absences	755,326	754,059	0	0	755,326	754,059
Total	<u>\$4,325,576</u>	<u>\$4,270,689</u>	<u>\$14,117,655</u>	<u>\$13,734,189</u>	<u>\$18,443,231</u>	<u>\$18,004,878</u>

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The general obligation bonds outstanding consist of the 1993 service garage addition bonds, 1993 sanitary sewer improvement bonds, 2001 fire station improvement bonds, 2004 municipal complex improvement bonds and 2005 aerial ladder fire truck bonds. The special assessment bonds outstanding are for sanitary sewer improvements. The principal and interest for these bonds are retired with assessments levied against property owners of the City based on the benefit to the respective parties. Assessments are collected by the Lake County Auditor and will be received over the next six years. The notes payable outstanding are for the anticipation of bonds being issued for municipal facilities, street improvements and for the purchase and installation of traffic signals and signs on State Route 91. The Lake County payable includes money owed to Lake County for the City's local portion of Pleasant Valley Road and Rogers Road bridge rehabilitation projects. Business-type debt includes OPWC and OWDA loans outstanding for infrastructure improvement projects, which are repaid using sewer revenues. Additional information concerning debt issuances can be found in Notes 16 and 17 to the basic financial statements.

Current Related Financial Activities

The City maintains a careful watch over its financial operations. This should help the City continue to remain financially strong. In addition, the City is working on strengthening its internal control system, and improving its budgeting and procurement standards to help the City meet the challenges of the future. The City remains open to providing the Citizens of Willoughby Hills with full disclosure of the financial position of the City.

Contacting the City of Willoughby Hills' Financial Management

This financial report is designed to provide the citizens, taxpayers, creditors, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, contact the Finance Director, City of Willoughby Hills, 35405 Chardon Road, Willoughby Hills, Ohio 44094-9103. Phone: (440) 946-1234, Fax: (440) 975-3533 or email finance@willoughbyhills-oh.gov.

Basic Financial Statements

City of Willoughby Hills, Ohio

Statement of Net Assets

December 31, 2011

	Governmental Activities	Business-Type Activity	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$2,513,211	\$1,247,769	\$3,760,980
Materials and Supplies Inventory	46,672	0	46,672
Accounts Receivable	216,335	0	216,335
Internal Balances	(70,000)	70,000	0
Intergovernmental Receivable	741,832	4,360	746,192
Prepaid Items	44,399	11,099	55,498
Municipal Income Taxes Receivable	1,238,413	0	1,238,413
Property Taxes Receivable	1,906,974	0	1,906,974
Special Assessments Receivable	34,716	0	34,716
Payment in Lieu of Taxes Receivable	112,080	0	112,080
Deferred Charges	7,027	0	7,027
Nondepreciable Capital Assets	279,700	15,339,633	15,619,333
Depreciable Capital Assets, Net	12,483,045	5,832,451	18,315,496
<i>Total Assets</i>	<u>19,554,404</u>	<u>22,505,312</u>	<u>42,059,716</u>
Liabilities			
Accounts Payable	93,277	160,191	253,468
Contracts Payable	4,654	0	4,654
Accrued Wages	90,895	923	91,818
Retainage Payable	0	43,385	43,385
Accrued Interest Payable	41,686	162,662	204,348
Intergovernmental Payable	269,186	1,043	270,229
Notes Payable	300,000	0	300,000
Deferred Revenue	1,855,879	0	1,855,879
Long-Term Liabilities:			
Due Within One Year	430,476	733,665	1,164,141
Due In More Than One Year	3,595,100	13,383,990	16,979,090
<i>Total Liabilities</i>	<u>6,681,153</u>	<u>14,485,859</u>	<u>21,167,012</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	9,234,868	7,011,044	16,245,912
Restricted for:			
Capital Projects	110,150	0	110,150
Debt Service	45,844	0	45,844
Street Construction, Maintenance and Repair	300,666	0	300,666
Road Levy	300,703	0	300,703
Drug Enforcement	227,080	0	227,080
Other Purposes	1,030,164	0	1,030,164
Unrestricted	1,623,776	1,008,409	2,632,185
<i>Total Net Assets</i>	<u>\$12,873,251</u>	<u>\$8,019,453</u>	<u>\$20,892,704</u>

See accountant's compilation report

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Activities
For the Year Ended December 31, 2011

		Program Revenues		
		Charges for Services and Assessments	Operating Grants and Contributions	Capital Grants and Assessments
	Expenses			
Governmental Activities:				
General Government	\$2,801,461	\$2,256,057	\$2,454	\$0
Security of Persons and Property:				
Police	3,262,757	28,621	118,911	0
Fire	2,059,268	404,663	77,380	0
Transportation	1,417,348	22,312	902,169	105,621
Community Environment	145,704	117,343	2,858	0
Leisure Time Activities	248,345	219,354	242	7,593
Interest and Fiscal Charges	101,978	0	0	0
<i>Total Governmental Activities</i>	10,036,861	3,048,350	1,104,014	113,214
Business-Type Activity:				
Sewer	1,378,133	1,994,194	0	68,303
<i>Total</i>	<u>\$11,414,994</u>	<u>\$5,042,544</u>	<u>\$1,104,014</u>	<u>\$181,517</u>

General Revenues

Property Taxes Levied for:

 General Purposes

 Debt Service

 Police Pension

 Fire Levy

 Road Levy

Municipal Income Tax Levied for General Purposes

Admission Taxes

Grants and Entitlements not Restricted to Specific Programs

Franchise Taxes

Interest

Payment in Lieu of Taxes

Other

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year (Restated - See Note 3)

Net Assets End of Year

See accountant's compilation report

See accompanying notes to the basic financial statements

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-Type Activity	Total
(\$542,950)	\$0	(\$542,950)
(3,115,225)	0	(3,115,225)
(1,577,225)	0	(1,577,225)
(387,246)	0	(387,246)
(25,503)	0	(25,503)
(21,156)	0	(21,156)
(101,978)	0	(101,978)
(5,771,283)	0	(5,771,283)
0	684,364	684,364
(5,771,283)	684,364	(5,086,919)
596,552	0	596,552
125,414	0	125,414
79,950	0	79,950
480,302	0	480,302
658,034	0	658,034
4,652,883	0	4,652,883
19,776	0	19,776
918,753	0	918,753
94,539	0	94,539
2,498	409	2,907
112,080	0	112,080
47,316	0	47,316
7,788,097	409	7,788,506
2,016,814	684,773	2,701,587
10,856,437	7,334,680	18,191,117
<u>\$12,873,251</u>	<u>\$8,019,453</u>	<u>\$20,892,704</u>

See accountant's compilation report

City of Willoughby Hills, Ohio

Balance Sheet

Governmental Funds

December 31, 2011

	General	Safety Forces	Road Levy	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$820,186	\$211,967	\$430,336	\$1,022,306	\$2,484,795
Cash and Cash Equivalents with Fiscal Agents	0	0	0		0
Materials and Supplies Inventory	17,375	0	0	29,297	46,672
Accrued Interest Receivable					0
Accounts Receivable	20,780	0	0	195,555	216,335
Interfund Receivable	0	0	0	7,603	7,603
Intergovernmental Receivable	429,751	0	41,484	270,597	741,832
Prepaid Items	44,399	0	0	0	44,399
Municipal Income Taxes Receivable	951,473	286,940	0	0	1,238,413
Property Taxes Receivable	585,414	0	647,267	674,293	1,906,974
Special Assessments Receivable	0	0	0	34,716	34,716
Admission Taxes Receivable	0	0	0		0
Payment in Lieu of Taxes Receivable	0	0	0	112,080	112,080
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	28,416	0	0	0	28,416
Total Assets	\$2,897,794	\$498,907	\$1,119,087	\$2,346,447	\$6,862,235
Liabilities					
Accounts Payable	\$46,751	\$16,400	\$19,937	\$10,189	\$93,277
Contracts Payable	0	0	4,654	0	4,654
Accrued Wages	6,461	61,255	0	23,179	90,895
Intergovernmental Payable	120,526	104,883	170	43,607	269,186
Interfund Payable	0	0	0	77,603	77,603
Accrued Interest Payable	0	0	1,500	1,042	2,542
Notes Payable	0	0	200,000	100,000	300,000
Deferred Revenue	1,572,090	205,854	668,779	1,222,094	3,668,817
Total Liabilities	1,745,828	388,392	895,040	1,477,714	4,506,974
Fund Balances					
Nonspendable	90,190	0	0	29,297	119,487
Restricted	0	110,515	224,047	615,512	950,074
Committed	74,030	0	0	327,016	401,046
Assigned	38,444	0	0	0	38,444
Unassigned (Deficit)	949,302	0	0	(103,092)	846,210
Total Fund Balances	1,151,966	110,515	224,047	868,733	2,355,261
Total Liabilities and Fund Balances	\$2,897,794	\$498,907	\$1,119,087	\$2,346,447	\$6,862,235

See accountant's compilation report

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
*Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
December 31, 2011*

Total Governmental Funds Balances	\$2,355,261
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*Amounts reported for governmental activities in the
statement of net assets are different because*

Capital assets used in governmental activities are not
financial resources and therefore are not reported in the
funds.

12,762,745

Other long-term assets are not available to pay for current
period expenditures and therefore are deferred in the funds.

Intergovernmental	595,825
Special Assessments	34,716
Income Taxes	888,451
Property Taxes	103,974
Charges for Services	189,972

Total	1,812,938
-------	-----------

In the statement of activities, interest is accrued on outstanding
liabilities, whereas in governmental funds, an interest
expenditure is reported when due.

(39,144)

Bond issuance costs will be amortized over the life of the bonds
on the statement of net assets.

7,027

Long-term liabilities are not due and payable in the current
period and therefore are not reported in the funds.

General Obligation Bonds	(1,801,484)
Special Assessment Bond	(34,716)
Notes Payable	(1,200,000)
Lake County Payable	(65,966)
Capital Leases	(168,084)
Compensated Absences	(755,326)

Total	(4,025,576)
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<i>Net Assets of Governmental Activities</i>	<u><u>\$12,873,251</u></u>
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See accountant's compilation report
See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2011

	General	Safety Forces	Road Levy	Other Governmental Funds	Total Governmental Funds
Revenues					
Property Taxes	\$603,000	\$0	\$664,747	\$693,199	\$1,960,946
Municipal Income Taxes	3,523,208	774,699	0	0	4,297,907
Admission Taxes	19,776	0	0	0	19,776
Charges for Services	74,013	14,623	0	313,796	402,432
Licenses, Permits and Fees	240,193	3,615	0	0	243,808
Fines and Forfeitures	2,046,241	0	0	84,298	2,130,539
Intergovernmental	858,672	20	399,684	873,561	2,131,937
Special Assessments	0	0	0	17,358	17,358
Payment in Lieu of Taxes	0	0	0	112,080	112,080
Interest	1,211	101	405	781	2,498
Rentals	119,657	0	0	46,132	165,789
Contributions and Donations	2,464	1,000	0	11,683	15,147
Franchise Taxes	94,539	0	0	0	94,539
Miscellaneous	31,409	9,435	2,327	4,145	47,316
Total Revenues	7,614,383	803,493	1,067,163	2,157,033	11,642,072
Expenditures					
Current:					
General Government	2,765,942	0	0	93,810	2,859,752
Security of Persons and Property:					
Police	0	3,200,822	0	190,649	3,391,471
Fire	2,754	1,260,503	0	762,237	2,025,494
Transportation	0	0	996,009	1,032,462	2,028,471
Community Environment	144,020	0	0	1,711	145,731
Leisure Time Activities	226,386	0	0	31,819	258,205
Capital Outlay	0	0	0	158,772	158,772
Debt Service:					
Principal Retirement	0	0	0	322,479	322,479
Principal Retirement - Current Refunding	0	0	200,000	50,000	250,000
Interest and Fiscal Charges	0	0	16,584	108,699	125,283
Total Expenditures	3,139,102	4,461,325	1,212,593	2,752,638	11,565,658
Excess of Revenues Over (Under) Expenditures	4,475,281	(3,657,832)	(145,430)	(595,605)	76,414
Other Financing Sources (Uses)					
Sale of Capital Assets	17,230	0	0	0	17,230
Inception of Capital Lease	0	126,099	0	0	126,099
Proceeds of Notes	0	0	0	200,000	200,000
Proceeds of Refunding Notes	0	0	400,000	600,000	1,000,000
Current Refunding	0	0	(400,000)	(600,000)	(1,000,000)
Transfers In	0	3,714,300	0	795,545	4,509,845
Transfers Out	(4,281,662)	0	(22,523)	(205,660)	(4,509,845)
Total Other Financing Sources (Uses)	(4,264,432)	3,840,399	(22,523)	789,885	343,329
Net Change in Fund Balances	210,849	182,567	(167,953)	194,280	419,743
Fund Balances (Deficit) Beginning of Year (Restated - See Note 3)	941,117	(72,052)	392,000	674,453	1,935,518
Fund Balances End of Year	\$1,151,966	\$110,515	\$224,047	\$868,733	\$2,355,261

See accountant's compilation report

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2011*

Net Change in Fund Balances - Total Governmental Funds	\$419,743
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*Amounts reported for governmental activities in the
statement of activities are different because*

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.

Capital Outlay	1,535,665	
Depreciation	(589,479)	
Total		946,186

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a loss is reported for each disposal.	(29,136)
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Revenue in the statement of activities that do not provide current financial resources are not reported as revenue in governmental funds.

Property Taxes	(20,694)	
Income Taxes	354,976	
Special Assessments	(17,358)	
Charges for Services	105,782	
Intergovernmental	(11,103)	
Total		411,603

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.

Notes Payable	1,250,000	
General Obligation Bonds Payable	243,642	
Special Assessment Bonds Payable	17,358	
Intergovernmental Payable	41,736	
Capital Leases Payable	19,743	
Total		1,572,479

Note proceeds are other financing sources in the governmental funds, but the issuance increases long-term liabilities on the statement of net assets.	(1,200,000)
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Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of net assets.

Accrued Interest	25,061	
Amortization of Bond Issuance Costs	(1,756)	
Total		23,305

The inception of a capital lease is reported as an other financing source in governmental funds but increases long-term liabilities on the statement of net assets.	(126,099)
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Some expenses, such as compensated absences, reported in the statement of activities do no require the use of current financial resources and therefore are not reported as an expenditure in governmental funds.	(1,267)
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Change in Net Assets of Governmental Activities	\$2,016,814
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See accountant's compilation report
See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2011

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Property Taxes	\$581,881	\$537,100	\$585,671	\$48,571
Municipal Income Taxes	3,926,050	3,612,200	3,576,290	(35,910)
Admission Taxes	54,562	50,200	18,084	(32,116)
Charges for Services	50,649	46,600	37,927	(8,673)
Licenses, Permits and Fees	184,771	170,000	221,105	51,105
Fines and Forfeitures	1,161,555	1,068,700	870,610	(198,090)
Intergovernmental	741,183	682,300	824,154	141,854
Interest	2,274	2,100	1,198	(902)
Rentals	138,252	127,200	119,657	(7,543)
Contributions and Donations	2,282	2,100	2,454	354
Franchise Taxes	92,385	85,000	94,539	9,539
Miscellaneous	25,107	23,500	31,409	7,909
<i>Total Revenues</i>	<u>6,960,951</u>	<u>6,407,000</u>	<u>6,383,098</u>	<u>(23,902)</u>
Expenditures				
Current:				
General Government	1,650,696	1,905,697	1,743,696	162,001
Security of Persons and Property				
Police	29,673	29,673	19,680	9,993
Fire	30,488	30,488	10,101	20,387
Community Environment	157,104	157,103	146,141	10,962
Leisure Time Activities	164,876	183,476	180,097	3,379
<i>Total Expenditures</i>	<u>2,032,837</u>	<u>2,306,437</u>	<u>2,099,715</u>	<u>206,722</u>
<i>Excess of Revenues Over Expenditures</i>	<u>4,928,114</u>	<u>4,100,563</u>	<u>4,283,383</u>	<u>182,820</u>
Other Financing Sources (Uses)				
Sale of Capital Assets	8,300	8,300	17,230	8,930
Transfers Out	(4,248,300)	(4,311,300)	(4,310,004)	1,296
<i>Total Other Financing Sources (Uses)</i>	<u>(4,240,000)</u>	<u>(4,303,000)</u>	<u>(4,292,774)</u>	<u>10,226</u>
<i>Net Change in Fund Balance</i>	<u>688,114</u>	<u>(202,437)</u>	<u>(9,391)</u>	<u>193,046</u>
<i>Fund Balance Beginning of Year</i>	<u>581,561</u>	<u>581,561</u>	<u>581,561</u>	<u>0</u>
<i>Prior Year Encumbrances Appropriated</i>	<u>128,039</u>	<u>128,039</u>	<u>128,039</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$1,397,714</u>	<u>\$507,163</u>	<u>\$700,209</u>	<u>\$193,046</u>

See accountant's compilation report

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Safety Forces Fund
For the Year Ended December 31, 2011

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Municipal Income Taxes	\$656,500	\$656,500	\$693,613	\$37,113
Charges for Services	65,300	65,300	14,623	(50,677)
Licenses, Permits and Fees	6,500	6,500	3,615	(2,885)
Intergovernmental	0	0	20	20
Interest	0	0	101	101
Contributions and Donations	0	0	1,000	1,000
Miscellaneous	0	0	9,435	9,435
<i>Total Revenues</i>	<u>728,300</u>	<u>728,300</u>	<u>722,407</u>	<u>(5,893)</u>
Expenditures				
Current:				
Security of Persons and Property				
Police	3,027,000	3,236,300	3,222,024	14,276
Fire	1,325,600	1,305,600	1,269,716	35,884
<i>Total Expenditures</i>	<u>4,352,600</u>	<u>4,541,900</u>	<u>4,491,740</u>	<u>50,160</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(3,624,300)</u>	<u>(3,813,600)</u>	<u>(3,769,333)</u>	<u>44,267</u>
Other Financing Sources				
Inception of Capital Lease	0	126,100	126,099	(1)
Transfers In	3,624,300	3,714,300	3,714,300	0
<i>Total Other Financing Sources</i>	<u>3,624,300</u>	<u>3,840,400</u>	<u>3,840,399</u>	<u>(1)</u>
<i>Net Change in Fund Balance</i>	<u>0</u>	<u>26,800</u>	<u>71,066</u>	<u>44,266</u>
<i>Fund Balance Beginning of Year</i>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$0</u>	<u>\$26,800</u>	<u>\$71,066</u>	<u>\$44,266</u>

See accountant's compilation report

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Road Levy Fund
For the Year Ended December 31, 2011

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Property Taxes	\$474,233	\$595,000	\$644,775	\$49,775
Intergovernmental	625,531	784,827	487,016	(297,811)
Interest	558	700	405	(295)
Miscellaneous	399	500	2,327	1,827
<i>Total Revenues</i>	1,100,721	1,381,027	1,134,523	(246,504)
Expenditures				
Current:				
Transportation	1,298,901	1,587,901	1,232,650	355,251
<i>Excess of Revenues Under Expenditures</i>	(198,180)	(206,874)	(98,127)	108,747
Other Financing Sources (Uses)				
Advances In	41,844	52,500	52,500	0
Transfers Out	(40,200)	(40,200)	(37,607)	2,593
<i>Total Other Financing Sources (Uses)</i>	1,644	12,300	14,893	2,593
<i>Net Change in Fund Balance</i>	(196,536)	(194,574)	(83,234)	111,340
<i>Fund Balance Beginning of Year</i>	170,561	170,561	170,561	0
<i>Prior Year Encumbrances Appropriated</i>	207,901	207,901	207,901	0
<i>Fund Balance End of Year</i>	<u>\$181,926</u>	<u>\$183,888</u>	<u>\$295,228</u>	<u>\$111,340</u>

See accountant's compilation report

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Fund Net Assets
Enterprise Fund
December 31, 2011

	<u>Sewer</u>
Assets	
<i>Current Assets</i>	
Equity in Pooled Cash and Cash Equivalents	\$1,247,769
Intergovernmental Receivable	4,360
Interfund Receivable	70,000
Prepaid Items	<u>11,099</u>
<i>Total Current Assets</i>	<u>1,333,228</u>
<i>Noncurrent Assets</i>	
Nondepreciable Capital Assets	15,339,633
Depreciable Capital Assets, Net	<u>5,832,451</u>
<i>Total Noncurrent Assets</i>	<u>21,172,084</u>
<i>Total Assets</i>	<u>22,505,312</u>
Liabilities	
<i>Current Liabilities</i>	
Accounts Payable	160,191
Accrued Wages	923
Retainage Payable	43,385
Accrued Interest Payable	162,662
Intergovernmental Payable	1,043
OWDA Loans Payable	660,799
OPWC Loans Payable	37,450
Capital Leases Payable	<u>35,416</u>
<i>Total Current Liabilities</i>	<u>1,101,869</u>
<i>Long-Term Liabilities (Net of Current Portion):</i>	
OWDA Loans Payable	12,828,779
OPWC Loans Payable	518,025
Capital Leases Payable	<u>37,186</u>
<i>Total Long-Term Liabilities</i>	<u>13,383,990</u>
<i>Total Liabilities</i>	<u>14,485,859</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	7,011,044
Unrestricted	<u>1,008,409</u>
<i>Total Net Assets</i>	<u><u>\$8,019,453</u></u>

See accountant's compilation report

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
*Statement of Revenues,
Expenses and Changes in Fund Net Assets
Enterprise Fund
For the Year Ended December 31, 2011*

	<u>Sewer</u>
Operating Revenue	
Charges for Services	<u>\$1,047,472</u>
Operating Expenses	
Personal Services	77,118
Fringe Benefits	28,329
Contractual Services	600,382
Depreciation	119,570
Other	<u>96,144</u>
<i>Total Operating Expenses</i>	<u>921,543</u>
<i>Operating Income</i>	<u>125,929</u>
Non-Operating Revenues (Expenses)	
Interest Income	409
Capital Grants	68,303
Special Assessments	946,722
Interest and Fiscal Charges	<u>(456,590)</u>
<i>Total Non-Operating Revenues (Expenses)</i>	<u>558,844</u>
<i>Change in Net Assets</i>	684,773
<i>Net Assets Beginning of Year</i>	<u>7,334,680</u>
<i>Net Assets End of Year</i>	<u><u>\$8,019,453</u></u>

See accountant's compilation report

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Cash Flows
Enterprise Fund
For the Year Ended December 31, 2011

	Sewer
Increase in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Customers	\$1,051,876
Cash Payments for Employee Services and Benefits	(107,314)
Cash Payments for Contractual Services	(568,661)
Cash Payments for Other Operating Expenses	(96,941)
	<u>278,960</u>
<i>Net Cash Provided by Operating Activities</i>	
Cash Flows from Noncapital Financing Activities	
Advances In	<u>262,300</u>
Cash Flows from Capital and Related Financing Activities	
Proceeds from OWDA Loans	970,182
Principal Paid on OWDA Loans	(515,537)
Interest Paid on OWDA Loans	(337,711)
Principal Paid on OPWC Loans	(37,450)
Principal Paid on Capital Lease	(33,729)
Interest Paid on Capital Lease	(5,317)
Acquisition of Capital Assets	(1,595,338)
Capital Grants	83,625
Special Assessments	<u>946,722</u>
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(524,553)</u>
Cash Flows from Investing Activities	
Interest	<u>409</u>
<i>Net Increase in Cash and Cash Equivalents</i>	17,116
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>1,230,653</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$1,247,769</u></u>

(continued)

See accountant's compilation report

City of Willoughby Hills, Ohio
Statement of Cash Flows
Enterprise Fund (continued)
For the Year Ended December 31, 2011

	<u>Sewer</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	<u>\$125,929</u>
Adjustments:	
Depreciation	119,570
(Increase)/Decrease in Assets:	
Intergovernmental Receivable	4,404
Prepays	(60)
Increase/(Decrease) in Liabilities:	
Accounts Payable	154,828
Accrued Wages	69
Intergovernmental Payable	<u>(125,780)</u>
<i>Total Adjustments</i>	<u>153,031</u>
<i>Net Cash Provided by Operating Activities</i>	<u><u>\$278,960</u></u>

See accountant's compilation report

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Fund
December 31, 2011

Assets

Equity in Pooled Cash and Cash Equivalents	<u>\$147,466</u>
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Liabilities

Deposits Held and Due to Others	<u>\$147,466</u>
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See accountant's compilation report

See accompanying notes to the basic financial statements

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Note 1 - Reporting Entity

The City of Willoughby Hills (the City) is a charter municipal corporation established and operated under the laws of the State of Ohio. The charter first became effective September 15, 1970. The current charter provides for a council-mayor form of government. Elected officials include seven council members and a mayor. The council members are elected for four year staggered terms. Four of the council members are elected at large. The mayor is elected for a four year term.

Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City. For the City of Willoughby Hills, this includes the agencies and departments that provide the following services: police and fire protection, emergency medical, recreation (including parks), planning, zoning, street maintenance and repair, refuse collection, recycling, sanitary sewer service and general administrative services.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance deficits of or provide financial support to the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes. The reporting entity of the City does not include any component units.

The City participates in the Northeast Ohio Public Energy Council, a jointly governed organization. This organization is discussed in Note 19 of the Basic Financial Statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the City of Willoughby Hills have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its enterprise fund unless those pronouncements conflict with or contradict GASB pronouncements. The City has elected not to apply FASB statements and interpretations issued after November 30, 1989, to its business-type activity and enterprise fund. The more significant of the City's accounting policies are described below.

Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type.

The statement of net assets presents the financial condition of the governmental and business-type activity of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activity of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the City.

Fund Financial Statements During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

Governmental Funds Governmental funds are those through which most governmental functions are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

General Fund The general fund accounts for and reports all financial resources except those required to be accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the charter of the City of Willoughby Hills and/or the general laws of Ohio.

Safety Forces Fund The safety forces special revenue fund is used to account for and report voter approved income taxes that are restricted for salaries of police and firemen and for police and fire supplies and equipment.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Road Levy Fund The road levy special revenue fund is used to account for and report restricted property taxes levied for the maintenance, repair, reconstruction and improvement of roads within the City.

The other governmental funds of the City account for grants and other resources whose use is restricted, committed or assigned to a particular purpose.

Proprietary Fund Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service. The City has no internal service funds.

Enterprise Fund - Enterprise fund may be used to account for and report any activity for which a fee is charged to external users for goods or services. The following is the City's major enterprise fund:

Sewer Fund The sewer fund accounts for and reports the provisions of sanitary sewer services to the residents and commercial users located within the City.

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City only utilizes the agency fund type. The agency fund accounts for and reports construction deposits.

Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the Statement of Net Assets. The Statement of Activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets.

Fund Financial Statements All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, the proprietary fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of fund net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activity.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements and the statements presented for the proprietary fund are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

Revenues - Exchange and Nonexchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within thirty-one days of year-end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes and grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the year in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 8). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income tax, interest, Federal and State grants and subsidies, State-levied locally shared taxes (including gasoline tax and motor vehicle license fees), fees and fines and forfeitures.

Deferred Revenue Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of December 31, 2011, but which were levied to finance year 2012 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations resolution is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of control has been established by Council at the object level within each department in the general fund and at fund level for all other funds. Any budgetary modifications at this level may only be made by resolution of City Council. Authority to further allocate Council appropriations within departments and objects has been given to the Director of Finance.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Finance Director. The amounts reported as the original and final budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original and final appropriations were enacted by Council.

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by Council during the year.

Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the City's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents".

During 2011, investments were limited to STAR Ohio. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2011.

Interest earnings are allocated to City funds according to State statutes, City Charter, grant requirements, or debt related restrictions. Interest revenue credited to the general fund during 2011 was \$1,211, which includes \$555 assigned from other City funds.

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are presented on the financial statements as cash equivalents.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2011, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which the services are consumed.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of expendable supplies held for consumption.

Restricted Assets

Assets are reported as restricted when limitations on their use change in nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the general fund represent money set aside for unclaimed monies.

Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the enterprise fund are reported both in the business-type activity column of the government-wide statement of net assets and in the fund.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The City was able to estimate the historical cost for the initial reporting of assets by backtrending (i.e. estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of two thousand five hundred dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of proprietary fund capital assets is also capitalized.

All capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	15 - 20 years
Buildings and Improvements	10 - 50 years
Machinery and Equipment	5 - 20 years
Infrastructure	20 - 50 years

The City's infrastructure consists of roads, sidewalks, sanitary sewers, storm sewers and traffic signals and does not include infrastructure acquired prior to December 31, 2004.

Interfund Balances

On fund financial statements, receivables and payables resulting from interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for any net residual amounts due between governmental and business-type activities, which are represented as internal balances.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. The City records a liability for all accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees the City has identified as probable of receiving payment in the future (those employees with sixteen years or more of service). The amount is based on accumulated sick leave and employees' wage rates at year end, taking into consideration any limits specified in the City's termination policy. The City records a liability for accumulated unused sick leave for employees after five years of service with the City.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements and all payables, accrued liabilities and long-term obligations payable from the proprietary fund are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds are recognized as a liability on the governmental fund financial statements when due.

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable: The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.

Restricted: Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation (City ordinances).

Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the City can be compelled by an external party-such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Committed: The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (ordinance or resolution) of City Council. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by City Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints are not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned: Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the City Council or a City official delegated that authority by City Charter or ordinance, or by State Statute.

Unassigned: Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Net assets restricted for other purposes include resources for court improvements, recreation, police pensions and fire department activities.

The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the City, these revenues are charges for services for sewer services. Operating expenses are necessary costs that have been incurred in order to provide the good or service that is the primary activity of the fund. Any revenues and expenses not meeting the definitions of operating are reported as nonoperating.

Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. Transfers between governmental activities are eliminated on the government-wide financial statements.

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities. Payments for interfund services provided and used are not eliminated.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds initially paid for them are not presented on the financial statements.

Bond Issuance Costs

On the government-wide financial statements, bond issuance costs are deferred and amortized over the term of the applicable bonds using the effective interest method. Within the governmental fund statements, bond issuance costs are expended when incurred. Issuance costs are generally paid from bond proceeds.

As permitted by State statute, the City paid bond issuance costs from the bond proceeds and therefore does not consider that portion of the debt to be capital-related debt. That portion of the debt was offset against the unamortized bond issuance costs which were included in the determination of unrestricted net assets. Reporting both within the same element of net assets prevents one classification from being overstated while another is understated by the same amount.

Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Note 3 – Change in Accounting Principles and Restatement of Prior Year Balances

Change in Accounting Principles

For 2011, the City has implemented Governmental Accounting Standard Board (GASB) Statement No. 59, “Financial Instruments Omnibus” and Governmental Accounting Standard Board (GASB) Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions”.

GASB Statement No. 59 addresses significant practice issues that have arisen when accounting for financial instruments by updating and improving existing standards regarding financial reporting of certain financial instruments and external investment pools. The implementation of this statement did not result in any change in the City’s financial statements.

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of GASB Statement No. 54 had the following effect on fund balances of the major funds and all other governmental funds as previously reported.

Restatement of Prior Year’s Fund Balance

	General	Safety Forces	Road Levy	Nonmajor Governmental Funds	Total Governmental Funds
Fund Balance at December 31, 2010	\$930,763	(\$72,052)	\$392,000	\$684,807	\$1,935,518
GASB 54 Change in Fund Structure	10,354	0	0	(10,354)	0
Adjusted Fund Balance at December 31, 2010	<u>\$941,117</u>	<u>(\$72,052)</u>	<u>\$392,000</u>	<u>\$674,453</u>	<u>\$1,935,518</u>

Restatement of Prior Year’s Net Assets

During the year, it was determined that governmental depreciable capital assets were overstated by \$113,707. This restatement decreased governmental activities net assets at December 31, 2010 from \$10,970,144 to \$10,856,437.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Note 4 - Fund Balances

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General	Safety Forces	Road Levy	Nonmajor Governmental Funds	Total
<i>Nonspendable</i>					
Unclaimed Monies	\$28,416	\$0	\$0	\$0	\$28,416
Inventory	17,375	0	0	0	17,375
Street Maintenance	0	0	0	29,297	29,297
Prepaid	44,399	0	0	0	44,399
<i>Total Nonspendable</i>	90,190	0	0	29,297	119,487
<i>Restricted for</i>					
Public Safety	0	110,515	0	91,003	201,518
Street Maintenance	0	0	224,047	197,983	422,030
Enforcement and Education	0	0	0	246,010	246,010
Debt	0	0	0	70,366	70,366
Capital Improvements	0	0	0	10,150	10,150
<i>Total Restricted</i>	0	110,515	224,047	615,512	950,074
<i>Committed to</i>					
Termination Pay	6,104	0	0	0	6,104
Underground Storage	11,000	0	0	0	11,000
Parks and Recreation	0	0	0	75,653	75,653
Capital Improvements	0	0	0	251,363	251,363
Other Purposes	56,926	0	0	0	56,926
<i>Total Committed</i>	74,030	0	0	327,016	401,046
<i>Assigned to</i>					
Recreation	16,731	0	0	0	16,731
Other Purposes	21,713	0	0	0	21,713
<i>Total Assigned</i>	38,444	0	0	0	38,444
<i>Unassigned (Deficit)</i>	949,302	0	0	(103,092)	846,210
<i>Total Fund Balances</i>	\$1,151,966	\$110,515	\$224,047	\$868,733	\$2,355,261

Note 5 - Budgetary Basis of Accounting

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis as provided by law and described above is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statements of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual are presented in the basic financial statements for the general fund and major special revenue fund on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP Basis (generally accepted accounting principles) are:

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as restricted, committed or assigned fund balance (GAAP).
4. Unreported cash represents amounts received but not included as revenue on the budgetary statements, but is reported on the operating statements prepared using GAAP.
5. Advances In are operating transactions (budget) as opposed to balance sheet transactions (GAAP).
6. Budgetary revenues and expenditures of the recreation fund are classified to the general fund for GAAP reporting.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General and major special revenue funds:

	Net Change in Fund Balance		
	General	Safety Forces	Road Levy
GAAP Basis	\$210,849	\$182,567	(\$167,953)
Net Adjustment for Revenue Accruals	(1,159,160)	(81,086)	(332,640)
Advances In	0	0	52,500
Beginning Unrecorded Cash	126,327	0	4,682
Ending Unrecorded Cash	(5,813)	(92,056)	(170)
Net Adjustment for Expenditure Accruals	950,173	110,486	495,285
Excess of revenues over expenditures:			
Recreation	(6,377)	0	0
Encumbrances	(125,390)	(48,845)	(134,938)
Budget Basis	<u>(\$9,391)</u>	<u>\$71,066</u>	<u>(\$83,234)</u>

Note 6 – Fund Deficits

At December 31, 2011, the law enforcement grants special revenue fund and the light signals TIF project capital projects fund had fund deficits, in the amounts of \$4,106 and \$98,986 respectively, due to adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and provides transfers when cash is required, not when accruals occur.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Note 7 - Deposits and Investments

The City is a charter City and has adopted an investment policy through City Ordinance. The City has elected to follow the provisions of State statutes. State statutes classify monies held by the City into three categories.

Active deposits are public deposits determined to be necessary to meet current demands upon the City treasury. Active monies must be maintained either as cash in the City Treasury, in commercial accounts payable withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Council has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the City Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAR Ohio); and

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

8. Commercial paper and bankers acceptances if training requirements have been met.

The City may also invest any monies not required to be used for a period of six months or more in the following:

1. Bonds of the State of Ohio;
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest or coupons; and
3. Obligations of the City.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

Deposits

Custodial Credit Risk - Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$1,478,164 of the City's bank balance of \$1,912,000 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

The City has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the City or a qualified trustee by the financial institutions as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

At December 31, 2011, the City had \$2,064,244 invested in STAR Ohio with an average maturity of 57 days.

Interest Rate Risk As a means of limiting its exposure to fair value losses caused by rising interest rates, the City's investment policy requires that operating funds be invested primarily in investments so that securities mature to meet cash requirements for ongoing operations. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

Credit Risk Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The City has no policy that addresses credit risk.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Note 8 - Receivables

Receivables at December 31, 2011, consisted primarily of municipal income taxes, property taxes, payment in lieu of taxes, permissive motor vehicle taxes, intergovernmental receivables arising from entitlements and shared revenues, special assessments, and accounts (billings for user charged services including unbilled utility services).

No allowance for doubtful accounts has been recorded because uncollectible amounts are expected to be insignificant. All receivables except property taxes and special assessments are expected to be received within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

Special assessments expected to be collected in more than one year amount to \$17,358 in the special assessment bond retirement fund. At December 31, 2011, the amount of delinquent special assessments was \$8,877.

Property Taxes

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2011 for real and public utility property taxes represents collections of 2010 taxes.

2011 real property taxes were levied after October 1, 2011, on the assessed value as of January 1, 2011, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2011 real property taxes are collected in and intended to finance 2012.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2011 public utility property taxes which became a lien December 31, 2010, are levied after October 1, 2011, and are collected in 2012 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2011, was \$7.30 per \$1,000 of assessed value. The assessed values of real property and public utility tangible property upon which 2011 property tax receipts were based are as follows:

Category	Assessed Value
Real Estate	
Residential/Agricultural	\$206,300,240
Other Real Estate	78,821,620
Tangible Personal Property	
Public Utility	3,811,890
Total Assessed Values	<u>\$288,933,750</u>

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and public utility property taxes and outstanding delinquencies which were measurable as of December 31, 2011, and for which there was an enforceable legal claim. In the governmental funds, the entire receivable has been deferred since current taxes were not levied to finance 2011 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On the accrual basis, collectible delinquent property taxes have been recorded as revenue while on the modified accrual basis the revenue has been deferred.

Income Taxes

The City levies a municipal income tax of one and one half percent on substantially all income earned within the City; in addition, residents are required to pay tax on income earned outside the City. On the November 2, 2010 election, an increase of one half percent was passed making the income tax rate two percent. This increase was effective January 1, 2011 on substantially all income earned within the City. The City allows a credit of one hundred percent for income tax paid to another municipality up to the total amount owed to the City. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually.

Income tax proceeds are to be used for the purposes of general municipal operations, maintenance, new equipment, extension and enlargement of municipal services and facilities and capital improvements of the City of Willoughby Hills. In 2011, the proceeds were allocated to the general fund and the safety forces special revenue fund.

Payments in Lieu of Taxes

According to State law, the City has established several tax incremental financing districts within the City under which the City has granted property tax exemptions and agreed to construct certain infrastructure improvements. The property owners have agreed to make payments to the City to help pay the costs of the infrastructure improvements. The amount of those payments generally reflects all or a portion of the property taxes which the property owners would have paid if the property had not been declared exempt. The property owners' contractual promise to make these payments in lieu of taxes generally continues until the costs of the improvement have been paid or the agreement expires, whichever occurs first. Future development by these owners or others may result in subsequent agreements to make payments in lieu of taxes and may therefore spread the costs of the improvements to a larger number of property owners.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Intergovernmental Receivable

A summary of the principal items of intergovernmental receivables follows:

	Amount
<i>Governmental Activities</i>	
Local Government	\$325,783
Motor Vehicle License Tax	122,190
Homestead and Rollback	113,053
Gas Excise Tax	107,677
Estate Tax	58,422
Lake County Recycling Grant	10,224
Tangible Personal Property Loss Reimbursement	3,796
Willoughby Municipal Court	687
<i>Total Governmental Activities</i>	<u>\$741,832</u>
<i>Business-Type Activity</i>	
Lake County CDBG Sewer Grant	<u>\$4,360</u>

Note 9 – Interfund Transactions

Interfund Transfers

Transfers made during the year ended December 31, 2011 were as follows:

Transfer To	General	Transfer From Road Levy	Nonmajor Funds	Total
Major Funds				
Safety Forces	\$3,714,300	\$0	\$0	\$3,714,300
Nonmajor Funds				
Street Construction, Maintenance and Repair	560,000	0	0	560,000
General Obligation Bond Retirement	0	22,523	197,160	219,683
Pleasant Valley Bridge	0	0	8,500	8,500
Recreation Improvement	7,362	0	0	7,362
<i>Total Nonmajor Funds</i>	<u>567,362</u>	<u>22,523</u>	<u>205,660</u>	<u>795,545</u>
<i>Total Governmental Activities</i>	<u>\$4,281,662</u>	<u>\$22,523</u>	<u>\$205,660</u>	<u>\$4,509,845</u>

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

The general fund made transfers to the safety forces and street construction, maintenance and repair special revenue funds and the recreation improvement capital projects fund to provide additional resources for current operations. The road levy special revenue fund and various nonmajor governmental funds made transfers to the general obligation bond retirement fund for debt payment requirements. The motor vehicle license special revenue fund transfer to the pleasant valley bridge capital projects fund is an annual subsidy for repair and maintenance of the pleasant valley bridge.

Interfund Balances

At the end of fiscal year 2011, the light signals TIF project capital projects fund had an interfund payable to the sewer enterprise fund in the amount of \$70,000 and the law enforcement grants special revenue fund had an interfund payable to the drug enforcement special revenue fund in the amount of \$7,603. These interfund payables are to be repaid within one year.

Note 10 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

During 2011, the City participated in the Municipal Insurance Alliance of Ohio Package Plan which contracted with Custis Insurance Service for the following types of insurance:

Type	Coverage
Property	\$14,145,809
General Liability	1,000,000 / 3,000,000 aggregate
Vehicle Liability	1,000,000 per occurrence
Law Enforcement Liability	1,000,000 aggregate
Public Officials Liability	1,000,000 aggregate
Employment Practices Liability	1,000,000 aggregate
Umbrella	10,000,000 aggregate

Claims have not exceeded this coverage in any of the past four years and there have been no significant reductions in overall commercial coverage in any of the past four years.

The City pays the Ohio Bureau of Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Note 11 - Capital Assets

Capital asset activity for the year ended December 31, 2011, was as follows:

	Balance 12/31/2010	Additions	Reductions	Balance 12/31/2011
Governmental Activities:				
Capital assets not being depreciated				
Land	\$34,400	\$245,300	\$0	\$279,700
Construction in progress	418,204	0	(418,204)	0
Total capital assets not being depreciated	452,604	245,300	(418,204)	279,700
Capital assets being depreciated				
Land Improvements	1,192,217	26,950	0	1,219,167
Buildings and Improvements	8,267,915	29,635	0	8,297,550
Machinery and Equipment	5,816,156	359,047	(60,561)	6,114,642
Infrastructure	3,506,744	1,292,937	0	4,799,681
Total capital assets being depreciated	18,783,032	1,708,569	(60,561)	20,431,040
Less: Accumulated depreciation				
Land Improvements	(691,968)	(47,464)	0	(739,432)
Buildings and Improvements	(2,636,376)	(167,211)	0	(2,803,587)
Machinery and Equipment	(3,811,941)	(276,596)	31,425	(4,057,112)
Infrastructure:	(249,656)	(98,208)	0	(347,864)
Total accumulated depreciation	(7,389,941)	(589,479) *	31,425	(7,947,995)
Capital assets being depreciated, net	11,393,091	1,119,090	(29,136)	12,483,045
Governmental activities capital assets, net	<u>\$11,845,695</u>	<u>\$1,364,390</u>	<u>(\$447,340)</u>	<u>\$12,762,745</u>
Business type activities:				
Capital assets not being depreciated				
Land	\$268,613	\$0	\$0	\$268,613
Construction in Progress	13,759,518	1,311,502	0	15,071,020
Total capital assets not being depreciated	14,028,131	1,311,502	0	15,339,633
Capital assets being depreciated				
Machinery and Equipment	409,695	0	0	409,695
Infrastructure	6,764,049	0	0	6,764,049
Total capital assets being depreciated	7,173,744	0	0	7,173,744
Less: Accumulated depreciation				
Machinery and Equipment	(101,524)	(35,718)	0	(137,242)
Infrastructure:	(1,120,199)	(83,852)	0	(1,204,051)
Total accumulated depreciation	(1,221,723)	(119,570)	0	(1,341,293)
Capital assets being depreciated, net	5,952,021	(119,570)	0	5,832,451
Business-type activities capital assets, net	<u>\$19,980,152</u>	<u>\$1,191,932</u>	<u>\$0</u>	<u>\$21,172,084</u>

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

*Depreciation expense was charged to governmental activities as follows:

General Government	\$204,526
Security of Persons and Property:	
Police	56,472
Fire	114,849
Leisure Time Activities	6,967
Transportation	<u>206,665</u>
Total	<u>\$589,479</u>

Note 12 – Defined Benefit Pension Plan

Ohio Public Employees Retirement System

Plan Description – The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units and 18.1 percent of covered payroll for law enforcement and public safety employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10 percent of covered payroll for members in State and local divisions and 12 percent for law enforcement and public safety members. For the year ended December 31, 2011, members in state and local divisions contributed 10 percent of covered payroll while public safety and law enforcement members contributed 11.0 percent and 11.6 percent, respectively. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan. For 2011, member and employer contribution rates were consistent across all three plans.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

The City's 2011 contribution rate was 14.0 percent, except for those plan members in law enforcement or public safety, for whom the City's contribution was 18.10 percent of covered payroll. The portion of employer contributions used to fund pension benefits is net of post-employment health care benefits. The portion of employer contribution allocated to health care for members in the Traditional Plan was 4.00 percent for 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for 2011. Employer contribution rates are actuarially determined.

The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2011, 2010 and 2009 were \$186,369, \$114,354 and \$126,455, respectively. For 2011, 91.96 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009. Contributions to the Member-Directed Plan for 2011 were \$12,565 made by the City and \$8,975 made by plan members.

Ohio Police and Fire Pension Fund

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy – The Ohio Revised Code requires plan members to contribute 10.0 percent of their annual covered salary, while employers are required to contribute 19.5 percent for police officers and 24.0 percent for firefighters.

The OP&F Pension Fund is authorized by the Ohio Revised Code to allocate a portion of the employer contributions to retiree health care benefits. The portion of employer contributions used to fund pension benefits was 12.75 percent of covered payroll for police officers and 17.25 percent of covered payroll for firefighters. The City's contributions to OP&F for police and firefighters pension were \$164,040 and \$131,042 for the year ended December 31, 2011, \$160,053 and \$132,977 for the year ended December 31, 2010, and \$169,000 and \$131,556 for the year ended December 31, 2009, respectively. For 2011, 73.13 percent for police and 72.27 percent for firefighters has been contributed with the balance for both police and firefighters being report as an intergovernmental payable. The full amount has been contributed for 2010 and 2009.

Social Security

As in prior years, as of December 31, 2011, the City's part-time firefighters are covered by Social Security rather than OP&F. The employees' liability is 6.2 percent of wages paid.

Note 13 – Postemployment Benefits

Ohio Public Employees Retirement System

Plan Description – Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan—a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan—a defined contribution plan; and the Combined Plan—a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple-employer defined benefit post-employment health care plan for qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. The plan includes a medical plan, prescription drug program and Medicare Part B premium reimbursement.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not mandate, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The post-employment health care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, state and local employers contributed at a rate of 14.0 percent of covered payroll, and public safety and law enforcement employers contributed at 18.10 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code.

Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0 percent for 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for 2011.

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment health care plan.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2011, 2010 and 2009 were \$74,548, \$63,747 and \$115,137, respectively. For 2011, 91.96 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased on January 1 of each year from 2006 to 2008. Rates for law enforcement and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

Ohio Police and Fire Pension Fund

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored health care program, a cost-sharing multiple-employer defined post-employment health care plan administered by OP&F. OP&F provides health care benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium and long-term care to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

The Ohio Revised Code allows, but does not mandate OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code.

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy – The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F defined benefit pension plan. Participating employers are required by Ohio Revised Code to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.50 percent and 24.00 percent of covered payroll for police and fire employers, respectively. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administrated as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2011, the employer contribution allocated to the health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

The OP&F Board of Trustees also is authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were \$86,845 and \$51,277 for the year ended December 31, 2011, \$84,734 and \$52,034 for the year ended December 31, 2010, and \$89,471 and \$51,479 for the year ended December 31, 2009. For 2011, 73.13 percent has been contributed for police and 72.27 percent has been contributed for firefighters with the balance for both police and firefighters being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009.

Note 14 – Other Employee Benefits

Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Employees earn vacation at different rates which are affected by length of service. At the time of separation the employee is entitled to payment for any earned but unused vacation. Sick leave is accrued at the rate of 4.6 hours for each 80 hours of completed service, including paid holidays and paid vacation, with a maximum accumulation of 960 hours. Upon retirement, employees are paid for all the sick days they have accumulated.

Health Care Benefits

Medical/surgical and prescription insurance is offered to employees through Medical Mutual Insurance Company of Ohio. Vision is offered through Vision Service Plan (VSP), and dental insurance is offered through Principal Dental. For in-network services, there is no deductible and a co-payment of \$15. Out of network services have a co-payment of 30 percent after the deductible and a \$1,000 to \$2,000 deductible for single coverage and a \$3,000 to \$6,000 deductible for family coverage.

The cost per month for health care is as follows:

	Employee Only	Employee Plus Spouse	Employee Plus Children	Family
Medical Mutual	\$460.15	\$917.58	\$888.10	\$1,417.66
VSP - Vision Plan	7.50	12.64	12.90	20.80
Principal Basic - Dental	11.98	24.40	32.29	46.73
Principal Buy-Up - Dental	28.28	57.53	68.99	102.30

City of Willoughby Hills, Ohio
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For the Year Ended December 31, 2011

The employee payroll deduction is 10 percent of the above figures:

	Employee Only	Employee Plus Spouse	Employee Plus Children	Family
Health Only	\$50.62	\$100.93	\$97.69	\$155.94
Health and Vision	51.45	102.32	99.11	158.23
Health and Dental Basic	51.94	103.61	101.24	161.08
Health, Vision and Dental Basic	52.77	105.00	102.66	163.37

Life Insurance

Life insurance is offered to employees through the Standard Insurance Company. Employees receive \$25,000 coverage for \$6.50 per month. The City pays the total monthly premium.

Note 15 - Contingencies

Grants

The City receives financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2011.

Litigation

The City of Willoughby Hills is a party to legal proceedings. The City management is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

Note 16 – Note Debt

A summary of note transactions for the year ended December 31, 2011 follows:

	Balance 12/31/2010	Additions	Reductions	Balance 12/31/2011
Governmental Activities				
2011 - 1.00% Various Purpose Notes, Series A	\$0	\$250,000	\$0	\$250,000
2011 - 2.00% Various Purpose Notes, Series B	0	50,000	0	50,000
Total Governmental Activities	\$0	\$300,000	\$0	\$300,000

City of Willoughby Hills, Ohio
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For the Year Ended December 31, 2011

All the notes are backed by the full faith and credit of the City of Willoughby Hills and mature within one year. The note liability is reflected in the funds which received the proceeds. The maturity date for the Series A, Various Purpose Notes is March 29, 2012. The maturity date for the Series B, Various Purpose Notes is April 26, 2012.

Note 17 - Long-term Obligations

The original issuance amounts for the City's long-term obligations are as follows:

Debt Issue	Interest Rate	Original Issue Amount	Year of Maturity
Governmental Activities			
<i>General Obligation Bonds:</i>			
Service Garage Addition - 1993	2.65-5.30%	\$135,000	2013
Sanitary Sewer Improvement - 1993	2.65-5.30%	56,785	2013
Fire Station Improvement - 2001	5.05%	1,153,000	2016
Municipal Complex Improvement - 2004	4.11%	1,200,000	2021
Fire Truck - 2005	4.16%	768,000	2016
<i>Special Assessment Bonds:</i>			
Sanitary Sewer Improvement - 1986	7.13%	373,215	2013
<i>Long-Term Notes Payable:</i>			
Various Purpose Notes, Series A - 2011	1.00%	1,000,000	2012
Various Purpose Notes, Series B - 2011	2.00%	200,000	2012
Business Type Activity			
<i>Ohio Water Development Authority Loans:</i>			
Oak Street Sewers - 2002	3.64%	232,330	2022
Euclid Creek Interceptor - 2003	3.03%	3,900,762	2025
Euclid Creek Sewers - 2005	3.25%	7,757,446	2027
Euclid Creek Tributary Watershed Area C - 2006	3.25%	3,579,517	2032
Woodlands Sanitary Sewers - 2006	3.25%	501,651	2027
Sewer Laterals - 2007	4.17%	140,985	2027
<i>Ohio Public Works Commission Loans:</i>			
Euclid Interceptor - 2005	0%	500,000	2026
Euclid Sewer Phase II - 2006	0%	249,000	2027

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Changes in long-term obligations of the City during 2011 were as follows:

	Outstanding 12/31/2010	Additions	Reductions	Outstanding 12/31/2011	Due Within One Year
Governmental Type Activities					
General Obligation Bonds					
Service Garage Addition	\$30,000	\$0	\$10,000	\$20,000	\$10,000
Sanitary Sewer Improvement	7,926	0	2,642	5,284	2,642
Fire Station Improvement	566,200	0	83,000	483,200	87,300
Municipal Complex Improvement	930,000	0	70,000	860,000	75,000
Fire Truck	511,000	0	78,000	433,000	81,000
Total General Obligation Bonds	2,045,126	0	243,642	1,801,484	255,942
Special Assessments Bond					
Sanitary Sewer Improvement	52,074	0	17,358	34,716	17,358
Other Long-term Obligations					
Notes Payable	1,250,000	1,200,000	1,250,000	1,200,000	0
Lake County Payable	107,702	0	41,736	65,966	20,868
Capital Leases Payable	61,728	126,099	19,743	168,084	42,984
Compensated Absences	754,059	377,099	375,832	755,326	93,324
Total Other Long-term Obligations	2,173,489	1,703,198	1,687,311	2,189,376	157,176
Total Governmental Type Activities	\$4,270,689	\$1,703,198	\$1,948,311	\$4,025,576	\$430,476
Business-Type Activities					
OWDA Loans					
Oak Street Sewers	\$158,829	\$0	\$10,770	\$148,059	\$11,166
Euclid Creek Interceptor	3,050,089	0	170,360	2,879,729	175,561
Euclid Creek Sewers	6,644,785	0	309,174	6,335,611	319,304
Euclid Creek Tributary Watershed Area C	2,609,335	970,182	0	3,579,517	128,658
Woodlands Sanitary Sewers	445,396	0	19,993	425,403	20,648
Sewer Laterals	126,499	0	5,240	121,259	5,462
Total OWDA Loans	13,034,933	970,182	515,537	13,489,578	660,799
OPWC Loans					
Euclid Interceptor	387,500	0	25,000	362,500	25,000
Euclid Sewer Phase II	205,425	0	12,450	192,975	12,450
Total OPWC Loans	592,925	0	37,450	555,475	37,450
Other Long-term Obligations					
Capital Leases Payable	106,331	0	33,729	72,602	35,416
Total Business-Type Activities	\$13,734,189	\$970,182	\$586,716	\$14,117,655	\$733,665

City of Willoughby Hills, Ohio
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For the Year Ended December 31, 2011

General Obligation and Special Assessment Bonds General obligation bonds are paid from the general bond retirement debt service fund from property taxes. Special assessment bonds are paid from the proceeds of special assessments levied against benefited property owners. In the event that a property owner would fail to pay the assessment, payment would be made by the City.

OWDA Loans Ohio Water Development Authority (OWDA) loans consist of money owed to OWDA for sewer improvements. The OWDA loans for the Oak Street, Euclid Interceptor and Sewer Laterals loans are paid from the sewer enterprise fund. The City has entered into a contractual agreement for construction loans from the Ohio Water Development Authority (OWDA). Under the terms of this agreement, OWDA will reimburse, advance or directly pay the construction costs of the approved projects. OWDA will capitalize administrative costs and construction interest and then add them to the total amounts of the final loans. The loans will not have an accurate payment schedule until the loans are finalized and, therefore, are not included in the schedule of future debt service requirements. The balances of these loans are as follows:

Euclid Creek Sewers	\$6,335,611
Euclid Creek Sewers Tributary Watershed Area C	3,579,517
Woodlands Sanitary Sewers	<u>425,403</u>
Total	<u><u>\$10,340,531</u></u>

OPWC Loans OPWC loans consist of money owed to the Ohio Public Works Commission for sewer improvements. The loans are interest free. OPWC loans will be paid from the sewer enterprise fund.

The City has pledged future revenues to repay OWDA and OPWC loans in the sewer fund. The debt is payable solely from net revenues and is payable through 2027. Net revenues include all revenues received by the sewer utility less all operating expenses other than depreciation expense. Total principal and interest remaining to be paid on these loans is \$4,434,072.

Notes Payable The note liability is reflected in the funds which received the proceeds. At December 31, 2011, the amount of long-term notes outstanding was \$1,200,000.

Lake County Payable The Lake County Payable consists of money owed to Lake County for the local share of the Pleasant Valley Road and Rodgers Road bridge rehabilitation projects. The payable will be paid from the capital improvements capital projects fund.

Capital Leases Capital lease obligations will be paid from the fund that maintains custody of the related assets. Capital leases will be paid from the safety forces special revenue fund, capital improvements capital projects fund and the sewer enterprise fund.

Compensated Absences Compensated absences will be paid from the general fund.

The City's overall legal debt margin was \$27,098,661 with an unvoted debt margin of \$12,651,973 at December 31, 2011.

City of Willoughby Hills, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2011, are as follows:

Governmental Activities:

Year	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2012	\$255,942	\$74,787	\$17,358	\$1,840
2013	263,342	63,137	17,358	920
2014	257,400	51,160	0	0
2015	270,300	39,406	0	0
2016	284,500	27,048	0	0
2017-2021	470,000	49,936	0	0
Total	<u>\$1,801,484</u>	<u>\$305,474</u>	<u>\$34,716</u>	<u>\$2,760</u>

Lake County	
Payable	
Year	Principal
2012	\$20,868
2013	20,868
2014	12,115
2015	12,115
Total	<u>\$65,966</u>

Business-Type Activity:

Year	OWDA Loans		OPWC Loans
	Principal	Interest	Principal
2012	\$192,189	\$96,225	\$37,450
2013	198,188	90,224	37,450
2014	204,377	84,037	37,450
2015	210,760	77,653	37,450
2016	217,343	71,071	37,450
2017-2021	1,192,939	249,129	187,250
2022-2026	923,107	60,893	174,750
2027	10,144	318	6,225
Total	<u>\$3,149,047</u>	<u>\$729,550</u>	<u>\$555,475</u>

City of Willoughby Hills, Ohio
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For the Year Ended December 31, 2011

Note 18 - Capital Leases - Lessee Disclosure

The City has entered into capitalized leases for police radio equipment, a dump truck for the service department and a sewer maintenance vehicle. The leases met the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures on the statement of revenues, expenditures, and changes in fund balance for governmental funds.

	Governmental Activities	Business-Type Activities
Vehicle	\$102,994	\$177,500
Equipment	126,099	0
Less: Accumulated Depreciation	(43,507)	(53,250)
Total	<u>\$185,586</u>	<u>\$124,250</u>

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of December 31, 2011.

	Governmental Activities	Business-Type Activities
2012	\$52,158	\$39,046
2013	52,158	39,045
2014	29,846	0
2015	29,846	0
2016	29,846	0
Total Minimum Lease Payments	193,854	78,091
Less: Amount representing interest	(25,770)	(5,489)
Present Value of Minimum Lease Payments	<u>\$168,084</u>	<u>\$72,602</u>

Note 19 - Jointly Governed Organization

The City is a member of The Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised of over 100 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities. The City did not contribute to NOPEC during 2011.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the eight-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the

City of Willoughby Hills, Ohio
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For the Year Ended December 31, 2011

General Assembly and on the Board. Financial information can be obtained by contacting Joseph Migliorini, Board Chairman, 31320 Solon Road, Suite 20, Solon, Ohio 44139 or at the website www.nopecinfo.org.

Note 20 – Subsequent Event

On March 28, 2012, the City retired \$1,250,000 in bond anticipation notes payable and issued \$1,000,000 in new notes. The new notes have a maturity date of March 14, 2013 and an interest rate of 1.0 percent.

On March 28, 2012, the City retired \$250,000 in federally taxable bond anticipation notes payable and issued \$200,000 in new notes. The new notes have a maturity date of March 14, 2013 and an interest rate of 1.625 percent.

On July 19, 2012, the City issued a \$450,000 note to finance the acquisition of a new fire truck. The notes have a maturity date of June 6, 2013 and an interest rate of 1.0 percent.



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